

APR 11 1977

MICHAEL RODAK, JR., CLERK

In The
SUPREME COURT OF THE UNITED STATES

October Term, 1976

No. _____

76-1056

BUDDY SYSTEMS, INC., a corporation,

Petitioner,

vs.

EXER-GENIE, INC., a corporation, and
E. E. HOLKESVICK,

Respondents.

RESPONDENTS OPPOSITION TO
PETITION FOR WRIT OF CERTIORARI
FROM THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

CHARLES E. WILLS
700 South Flower Street, Suite 1120
Los Angeles, California 90017
(213) 688-7407

Attorney for Respondents

SUBJECT INDEX

	Page
1.	
Issue	1
2.	
Resume of Facts	2
3.	
There is no direct conflict among the Circuits regarding the right to bring an action upon a bond . . . in the absence of a bond	7
4.	
If it were determined that district courts have subject matter jurisdiction under 28 U.S.C. 1352 for an action on a bond . . . where there is no such bond . . . the results would be chaotic.	9
5.	
Conclusion.	10

1. Issue.

Does a district court have subject matter jurisdiction under 28 U.S.C. 1352, for an action on a bond . . . in the absence of any such bond at the time of the filing of the action?

More specifically, is there such jurisdiction in a particular case where a Certificate of Deposit was deposited with the Clerk pursuant to the following provision in the Order Re Plaintiff's Motion For Preliminary Injunction (Footnote 2, page 10 of Petition):

"Pursuant to Rule 65(C) of the Federal Rules of Civil Procedure, the plaintiffs herein shall give security in the sum of One Hundred Thousand Dollars (\$100,000.00), by a corporate surety bond, or by a treasury bond or a certificate of deposit payable to Clerk, United States District Court, for the payment of such costs and damages as may be incurred or suffered by any party who is found to be wrongfully enjoined

or restrained".

which Certificate of Deposit was exonerated by an order of the District Court prior to the filing of the action purportedly based upon such bond? (emphasis added)

2. Resume of Facts.

At the hearing on the preliminary injunction in the patent infringement case, the petitioner Buddy Systems, Inc. and the other defendants were given the opportunity to continue to manufacture and sell the accused exerciser, provided they posted security for an award of damages in the event the patent was held valid and infringed. Buddy Systems, Inc. and the other defendants failed to post such security.

Accordingly, the respondents Exer-Genie, Inc. and E. E. Holkesvick posted a Certificate of Deposit payable to Clerk, United States District Court, "for the payment of such costs and damages as may be incurred or suffered by any party who is found to be wrongfully enjoined or restrained", and the

preliminary injunction was issued.

The petitioner Buddy Systems, Inc. failed to appeal the issuance of the preliminary injunction.

After a trial on the merits, the District Court held the patent to be valid and infringed, and Exer-Genie, Inc. and E. E. Holkesvick requested that the security be exonerated.

Before exonerating the security, the District Court gave Buddy Systems, Inc. a predetermined number of days within which to submit in writing, any authority which it might have as to why the security should not be exonerated. Buddy Systems, Inc. failed to submit any authority in support of its objection to the exoneration of the security.

In its Petition to this Court, Buddy Systems, Inc. erroneously states (page 3) that the district judge afforded Buddy Systems an opportunity to submit in writing any "argument" it might have in support of its objections, and Buddy Systems did submit such "argument" to the district judge in its Objections to the Findings of Fact and Conclusions

of Law and Judgment as proposed by Plaintiffs. Buddy Systems, Inc. well knows the difference between "arguments" and the "authorities" requested by the Court, and it is unfortunate that this Court should be subjected to such mistatement of the facts.

On page 6 of the Petition, Buddy Systems, Inc. states that the permanent injunction was lesser in scope than the preliminary injunction. This is incorrect. Both injunctions were of equal scope. This should be obvious because the patent was held valid and infringed, and the same accused exerciser was involved in both the preliminary injunction and the permanent injunction.

In its appeal of the Judgment and Permanent Injunction in the patent infringement case, Buddy Systems, Inc. failed to brief or argue the exoneration of the security, and, accordingly, the Court of Appeals did not reach that issue.

Thus, as pointed out by the Court of Appeals in its Opinion which is the subject matter of this Petition (page 19 of the Petition):

"On appeal, we reversed the district court's judgment and held that Exer-Genie's patents were invalid. Exer-Genie, Inc. v. McDonald, 453 F.2d 132 (9th Cir. 1971), cert. denied, 405, U.S. 1075, 1972). Buddy Systems did not challenge the exoneration of the bond as premature and erroneous and we did not reach that issue on appeal." (emphasis added)

In short, by its failure to brief or argue the issue of the so-called premature and erroneous exoneration of the security, the petitioner Buddy Systems, Inc. waived any rights it might have had in that regard.

Buddy Systems, Inc. has "argued" that the release of the security by the Clerk on August 18, 1969, was not noted on the Docket Sheet, and Buddy Systems, Inc. did not discover that the security was actually released until after the decision of the Court of Appeals on September 14, 1971.

There is no evidence to support this "argument" and it flies in the face of the Judgment of the District Court which was filed and entered on August 15, 1969, and which provided in paragraph 4 thereof that:

"The Clerk shall return to the Plaintiffs, the security which they gave for the issuance of the preliminary injunction". [C. 142]

It would be obvious to the most inexperienced, that if a party went to the trouble and expense of seeking an order to obtain the release of \$100,000.00, and such an Order was signed and filed, the party would promptly reobtain possession of the \$100,000.00.

3. There is no direct conflict among the Circuits regarding the right to bring an action upon a bond . . . in the absence of a bond.

The overwhelming weight of authority is that in the absence of a bond or other posted security, no damages can be awarded for the wrongful issuance of a preliminary injunction.

The petitioner Buddy Systems, Inc. argues that a conflict exists among the Circuits regarding the right to bring an action on a bond . . . in the absence of a bond, relying primarily upon Atomic Oil Co. v. Bardahl Oil Co., 419 F.2d 1097 (10 Cir. 1969), cert. denied, 397 U.S. 1063 (1970).

The petitioner also states (page 5 of Petition) that the Circuit Court below summarily stated that it disagreed with the holding of Atomic Oil Co., and that the facts in the present case are similar to those in Atomic Oil Co.

Not So. The facts were different and the basis of the holding in Atomic Oil Co. is not clear.

With regard to the holding of Atomic Oil Co., the Circuit Court below stated:

"in recognition of the problems likely to be generated by adopting the questionable jurisdictional exception advocated by Buddy Systems, we would want sound authority to chart the course. But Atomic Oil Co. v. Bardahl Oil Co., supra, does not provide us with an illumined path to follow. There is no discussion whatsoever in Atomic Oil of the court's source of jurisdiction. The defendant had obtained recovery in an independent action on two injunction bonds, one of which had been exonerated. The fact that recovery was sought on both bonds, however, is not decisive on the issue of section 1352 jurisdiction over the action on the exonerated bond. Assuming the court had jurisdiction over the claim on the existing bond pursuant to Section 1352, it might have decided the

the claim on the exonerated bond on a theory of pendent jurisdiction. See United Mine Workers v. Gibbs, 383 U.S. 715 (1966). To the extent jurisdiction of the latter claim was based on section 1352, we believe, as noted earlier, that Atomic Oil is wrong.

No other case can be cited in support of Buddy Systems' position."

4. If it were determined that district courts have subject matter jurisdiction under 28 U.S.C. 1352 for an action on a bond . . . where there is no such bond . . . the results would be chaotic.

As pointed out by the Circuit Court (pp. 27-28 of the Petition), if the theory advanced by Buddy Systems, Inc. were to be adopted, sureties would be uncertain as to the termination of their liability and bonding costs could increase to reflect this uncertainty, and such an increase

in bonding costs would have a deterrent effect on the meritorious claims of indigents who seek provisional injunctive relief under Rule 65.

And, if district courts were to react to higher bond costs by requiring bonds of lower amounts, the net result could well be to subject more defendants to the prospect of inadequate relief for wrongfully issued injunctions.

5. Conclusion.

The petitioner Buddy Systems, Inc. is in its present position because:

(a) it failed to appeal the issuance of the preliminary injunction in the patent infringement action,

(b) it failed to submit authorities to the District Court as to why the security should not be exonerated pending appeal, which the District Court specifically requested it to do prior to exonerating the security, and

(c) it failed to brief and argue the issue of the exoneration of the security on the appeal

of the patent infringement action.

Thus, as stated by the Circuit Court (p. 30 of Petition):

"Nor can it be persuasively argued that the refusal to find section 1352 jurisdiction over Exer-Genie's exonerated bond allows district judges unilaterally to abrogate federal jurisdiction. It must be conceded that this occurs every time a district judge decides an issue of jurisdiction incorrectly. Appellate courts exist to afford parties an opportunity to rectify these mistakes. *Stoll v. Gottlieb*, 305 U.S. 165, 171-75 (1938); See also *Durfee v. Duke*, 375, 375 U.S. 106 (1963). Whether by neglect or strategy, Buddy Systems did not avail itself of a similar opportunity. We cannot save Buddy Systems from its blunder when the end result will be to override the clearly expressed intent of Congress

in its allocation of federal jurisdiction."

WHEREFORE, this Court is respectfully urged
to deny the Petition of Buddy Systems, Inc.

Respectfully submitted,

Charles E. Wills

Los Angeles, California

April 6, 1977.